

CO-OP ISSUES *

By

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We are living in times of changing facts. Many of the facts you and I used yesterday as a basis for our words and actions are not facts today.

Cheap food - High food costs

New technology - Environmental Controls

Cheap fuel - Energy crisis

Co-ops are small and therefore good

Co-ops are large therefore good

Co-ops are inflation fighters rather than depression fighters

Co-ops have become leaders rather than regulators

The paradox is that some of our public thinks of farming and cooperatives in the 'good ole days' - whenever that was. Some individuals visualize farmers as a man with a home away from it all, with a horse to ride and hickory nuts to eat rather than grape nuts. When these individuals realize that the 1975 farmers have 'put it all together' and have, with the assistance of their cooperatives, achieved their goal of a standard of living equal to other segments of our economy, then they become disturbed that he has it so good.

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Agricultural cooperatives are one of the many tools successful farmers have and are using to assist them in efficiently producing and marketing food and fiber. To me the agricultural cooperative is comparable to the farm tractor, a tool of modern agriculture - each requires skilled operators, sufficient energy to power it, good maintenance to be in top working condition, and they must be fitted for the job.

Many of our agricultural cooperatives started about 40 to 50 years ago in the days of the "Fordson" tractor. As the demands of agriculture outgrew the capabilities of the "Fordson", the demands farmers made on their cooperatives also brought about change. Cooperatives like tractors had to adjust and grow to remain effective tools for modern agriculture.

The old Fordson of the 1920's and '30's still has some of the basics common with today's modern farm tractor. They each have wheels, an engine, a transmission, a steering wheel, and a seat; but they are quite different in their appearance, size, power, adaptability and use as the engineers have designed the 1975 tractors to serve the needs of the farmers of 1975. The same is true for agricultural cooperatives. We still have the same basics in our 1975 agricultural cooperatives that we had 40 years ago, but like the tractor it has been necessary for agricultural cooperatives to adjust, change, develop more market power and grow in order to be an effective tool for modern farmers. Agricultural cooperatives still maintain the basic principles of: democratic control, so that people rather than dollars control; limited interest on equity capital, so the savings of the cooperative

will be returned to the user rather than the investor; and operation at cost, which means that they price their services and/or products competitively and at the end of the business year if the cooperative has savings, they will be refunded savings to those who patronize the cooperative, or if the cooperative has not charged enough margin to cover the costs of operation, the users will be asked to pay their share of the loss so that each year their cooperative breaks even.

Today's agricultural cooperatives like the tractor and other agricultural tools are larger and so constructed to serve today's needs, not the needs of yesteryear. As tractors took on more of the farmers work, they required more fuel, more skill and more maintenance. As cooperatives take on more of the farmers work and services, they, too, require more capital, more operating skill and, yes, more maintenance.

Today's cooperatives and today's tractors require skilled operators. Each of these tools of modern agriculture are more effective and sophisticated than they were last year. The operators of each tool must know its capabilities and how best to employ it. The farmer must keep his tractor and cooperative both in top performance condition if it is to serve him when he needs it.

The operators of the cooperative - the board of directors, the manager, and the employees - must know the capabilities and limitations of the cooperative if it is to effectively serve today's farmer. Like the tractor operator, they must be trained to perform their tasks in a responsible manner.

Some farmers may prefer to farm without their cooperative. This may be because they have never been taught how they can use their cooperative to improve their net income. Often some farmers fail to realize that those who own the cooperative do not buy from or sell to THE cooperative but use it as a tool and sell through or purchase through THEIR cooperative. Farmers cannot afford to own a tractor and let it sit in the shed while they hire their neighbor to plow for them - neither can they treat their co-op as a spare and use it only 10% of the time. Oh yes, the farmer has some new regulations about tractors - they are: child labor laws, roll bars, etc., and not to be left out OSHA, EPA, IRS, SEC, etc. have been applied to the cooperative.

With this brief overview of farmer cooperatives as I see them, I hope I have given you some indication of my views of cooperatives. I see cooperatives as a part of the farmer's total production and marketing activities. Cooperatives have come of age. They are big business but still they are only the launching pad for "blasting off" to greater service for farmers and consumers.

This is a member relations conference. I define a conference as, "A group participation meeting in which a number of individuals examine a given subject or problem and express opinions."^{1/} I feel each

^{1/} ESO 254, The Conference, Charles H. Ingraham, Extension Economist, Business Management, Ohio State University, and Larry Smith, Student, Agricultural Economics, Ohio State University.

participant in the conference should be stimulated to share his knowledge and experience with others in the hope that a decision may be reached which represents the concerns, viewpoints and opinions of all in attendance. That's a big order, but it cannot be accomplished if we just say what the other fellow wants to hear.

Woody Hayes in his book, You Win With People, makes the point that you really don't get the best from people until you "aggress" them. I'm going to attempt to "aggress" you. I do hope that you realize I'm really on your side. I know it would be best for me to stand up here and say the nice things you would like to hear, but that could be one of the issues.

Cooperative directors, cooperative management, you and I have too often considered criticism of the cooperative as criticism of our performance. Thus we have become defensive. We can justify our defensive reactions by citing examples of charges and press releases by anti-cooperative groups that have been most unfair and unfounded.

I have been asked to present some of the issues that cooperatives face.

Let me start off with the image of cooperatives. It's not good, but compared to what? I don't think it's as bad today as the image of investor oriented businesses. Much of the press including some of the agricultural press and even some publications of Farm Organizations present what to me is a distorted view of cooperatives, but on the whole I think the co-op's image is better than in the 1930's and '40's when you could find full page ads that denounced cooperatives. What does concern me is

that in the last couple of years when farmers used their co-ops to secure needed supplies or to effectively and efficiently move products to market and as a result kept consumer prices down, they were labeled big, bad monopolies. This may to many of you be an issue but I feel it is more a part of several issues.

With so many diverse ideas, viewpoints and opinions about cooperatives to me the number one issue is: What should we (all of us) tell our members, employees, students, and the public about cooperatives. To be more specific, what are cooperatives and how do they operate? For example, the Farmers Cooperative Service in 1964 came up with a definition of a cooperative.^{2/} Can we all agree on this definition or do we need another one? Another part of this issue is, who is and who isn't a co-op. The NFO has for years said that they were a co-op, and recently I read where a State Farm Bureau Federation said it's a co-op; and at the same time some mutual insurance companies and savings & loans say they aren't co-ops.

The challenge to cooperatives is today as it has always been - to grow as fast as farmers and their needs for cooperatives grow. Today as farmer cooperatives are becoming an effective tool in the market place, we hear anti-cooperative spokesmen charge, "monopoly," "undue enhancement of price," "Price fixing," etc. What is the farmer's side of the story? Is the cooperative really a part of the farmer's operation? Is the co-op really farmers working together and do farmers sell through their cooperative rather than from the cooperative? As tractor models change, so must cooperatives. What should next year's co-op model look like?

^{2/} Cooperative Criteria, Service Report 71, Farmer Cooperative Service, USDA

Like selling new tractors - every farmer should be inspired to want one - but keep in mind a new paint job isn't enough. The issue here is to have farmers and the public understand the need for larger cooperatives and the contributions large cooperatives can make to our total standard of living.

I will not take the time today to recount the efforts farmers put forth to obtain the privilege of having associations to assist them in their efforts to economically provide food and fiber to the people of the hungry world. Despite the distinguished record of the American farmer we find this right of farmers to form associations under attack. The issue here is how to preserve the rights farmers have to work together in associations as now provided by Capper Volstead and other enabling legislation.

For about 60 years the American farmer has worked within the legislative process of our government to obtain legislation permitting the growth and development of farmers' off-farm business - the cooperative. In recent years many of these legislative gains have been reduced and even threatened with extinction by departmental regulations, rulings, and challenges.

Some anti-cooperative individuals in Justice, ICC, SEC, etc. see the tremendous power farmers could have if they were to put all their business through their cooperatives. The questions raised and remedies leaked by these agencies and departments are often so unreal to many of us that we assume they will go away. But threats such as limits on the

size of cooperatives, no marketing agencies in common, a narrow definition of marketing, and all co-op paper including patronage dividends having to be registered with SEC appear to be real. The issue appears to me to be are farmers going to continue to be intimidated or can they prevent the further eroding of their rights as established by the legislative process to have a hand in the inputs and outputs of their farm.

Are farmers going to stop being intimidated and rise to the occasion and prevent the further eroding of their rights to build, own and operate farmer cooperatives.

As agriculture and farmers have continued to grow to feed a hungry world, the U. S. farmer has grown, specialized and changed. My farm management co-workers tell me that in the U. S. 1% of all farmers are incorporated and 7% of our total land area is farmed by farmers that are incorporated. I believe incorporation will become even more desirable for the family farm given the trend of regulations and legal rulings. We must also recognize that incorporation is a state matter and requirements for incorporation vary from state to state. So the issue is who should be permitted membership in an agricultural or farmer cooperative?

The political arena may be of greater importance to the American farmer today than any time in the past. Despite the loud and rough noises and law suits designed and employed to frighten the farmer from the political arena, he must stand fast and build an even larger political war chest if he is to compete. If the farmer and his cooperatives exit

from the political arena, they will be surrendering their fate to their adversaries. The issue is for the farmer cooperative to regain member understanding and support of the cooperative political action, funds and programs.

Now for a few internal issues.

The cooperative statutes of some states have provisions for use of the co-ops savings for member educational endeavors. Historically, education has always been a primary concern of cooperative leaders. Such educational provisions are not mandatory but are permissive and indicate the concern of early cooperative leaders and legislators for informing members about how cooperatives are unique and how members can use their cooperative to increase their net income. Education about cooperatives has been too long neglected. Schools and colleges are not providing this education. A recent survey of State Co-op Councils showed only a limited number of colleges and universities teaching about cooperatives and their uniqueness as one of the four ways of doing business in our competitive economy. The representative of one Agricultural Economics Department wrote:

I have encountered a general feeling among Ag. Economists that most of the aspects of business education apply to both cooperatives and to private business firms. Hence, with the universal pressures to reduce duplication in college course offerings, and the necessity to reduce courses and/or sections

with low enrollment, many departments have reduced or eliminated courses dealing exclusively with cooperatives and their problems.

The 1974-75 catalog lists 44 courses offered by the Dept. of Economics. I doubt that any one of these courses could be construed as having no application to cooperative business ventures. Neither do any of them limit their coverage to cooperatives, or to corporations, or to partnerships, etc.

Such concepts as marginal revenue, marginal costs, fixed and variable costs, budgeting, trial balances, net worth, liquidity, analytical ratios, etc. May be useful regardless of the type of legal organization employed.

The responsibility to educate members, employees and the public about cooperatives is in the hands of farmers and their cooperatives.

The issue: to educate farmer members and cooperative employees - at all levels - about the uniqueness of cooperatives, what they are, how they operate and how farmers may employ cooperatives as a tool of modern agriculture.

Farmer cooperatives are a business. The management of the business is entrusted by law in the hands of a board of directors elected to represent the owners. The elected directors accept the legal responsibility to operate the cooperative in a sound and productive manner. With so

many unemployed attorneys today and ever changing rules and regulations, the position of director may not attract a successful farmer who has built a large net worth. Director training is a must for all directors! No farmer would put an untrained driver on his new tractor any more than he would ask an untrained person to serve as a director of his million dollar co-op. Yet I have observed from the farm press and college business management professors and even some co-op leaders a wide range of viewpoints as to the role of directors of all businesses. For example, who hires and fires employees - the board or the manager? Who hires the auditor? I could go on. In the recent past some director and management training programs have not done the tough job of preparing directors to effectively discharge their responsibilities. The issue is to train cooperative directors to effectively discharge their responsibilities with dispatch.

In those states where we have both centralized and federated cooperatives, members, directors and the public often become confused as to how each type of cooperative functions. The problem becomes more acute where a director serves on the board of a local in a federated and at the same time on the board of a centralized. While this issue could like many others go under the education issue, I see a special issue of members, boards and employees recognizing their different roles in a centralized co-op when operating across the street from a federated. The issue is: to have members, directors, employees and the press understand the operation of these two types of cooperatives.

As cooperatives continue to serve agriculture there is a natural change in ownership of the cooperative as farmers retire or migrate out of agriculture. Co-ops are people. Keeping the membership of the cooperative active and current is a responsibility of the board. Directors have the responsibility to purge the membership of ineligible members annually and some boards should at least once a year conduct an aggressive campaign for new members. Too often I have young farmers ask me, "How can I join a cooperative." The issue than is to keep the control and financing of the cooperative in the hands of active farmer members.

Cooperatives must continue to grow to meet the demands of tomorrow's farmers. Mergers, consolidations and acquisitions will continue to be employed to build the farmer cooperative that will effectively serve tomorrow's agriculture. In view of the adverse press and vested interests of cooperative members, the issue is: to have farmers, the regulators and the public understand and accept the benefits of larger farmer cooperatives.

The unique resource of cooperatives is people. Like any resource, the people resource must be effectively handled and productively employed if it is to make a worthwhile contribution. Misused or mismanaged this people resource can be a detriment and bring disaster to the cooperative firm.

We can consider the individual co-op member as a single complex organism with his need system working in a variety of ways. During times of crisis, want, or stress, individuals become committed and will totally commit themselves to the cause. This is the type of commitment

many farmers had to their cooperative when it was organized.

It was not an easy task to convince farmers in the depression era of the 1930's that they needed electricity. It required devoted leadership, with tremendous courage to motivate the individual to want electricity enough to commit himself to the cause of organizing and financing a REC.

This individual people resource can, if not properly employed, work against the cooperative. The individual people resource must be guided toward its commitment. Many times the strongest leadership is found in those who have been neglected as was the case 40 years ago when many of your co-ops were formed. Cooperative leaders must not make the same mistake the professional directors of investor oriented firms made 40 years ago.

We must make certain that each individual member of the cooperative understands how his cooperative is filling his individual need for service, comfort, convenience, etc., and commit his efforts toward the objective of the cooperative.

People who own the cooperative must be informed about the cooperative - what it is, how it is functioning, what its problems are and how it is meeting them. It is their business, they must be given the facts - both good and bad.

Too often as cooperatives grow, as they must to serve their members in our competitive economy, the manager becomes so involved with the management functions that he cannot visit with members or

groups of members. A member relationship director is employed, but his position is often so far down the organizational ladder that members' concerns cannot effectively reach the manager, or the member relation director may be so far removed from the board that he really doesn't know what is going on. At times we might hear members say, "Our co-op manager, oh yes, he always gives us a bunch of figures at the annual meeting." I believe cooperative managers must be people oriented. This is another different requirement from those required of managers of an investment oriented firm.

Members must have the facts about their cooperative or false and misleading information may generate from face to face groups and be accepted as facts by members and the public. The issue is: how to involve all members (women, men, young farmers, minorities, and others) in their cooperative.

A basic issue today is to plan the cooperative that will effectively serve farmers as a tool of 1980 agriculture.